



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Maricopa County

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Maricopa County
Single Audit Reporting Package
Year Ended June 30, 2004

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Maricopa County as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 1, 2005. Our report was modified for a disclaimer of opinion on the financial statements of the Maricopa Health Plan Fund, the ALTCS Fund, the Non-AHCCCS Health Plans Fund, and the business-type activities; a change in reporting entity for the Housing Authority of Maricopa County being reported as a discretely presented component unit; and due to our reliance on the report of other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, we and the work of the other auditors noted certain matters involving internal control over financial reporting and its operation that we and the other auditors consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-01, 04-02, and 04-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-01 and 04-02 to be material weaknesses. We also noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter at a future date.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The work of the other auditors disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 04-02. We also noted certain immaterial instances of noncompliance or other matters that we will report to the County's management in a separate letter at a future date.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

December 1, 2005



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

Compliance

We have audited the compliance of Maricopa County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004, except for that portion of the federal programs administered by the Housing Authority of Maricopa County, which includes the following programs: Public and Indian Housing, Public and Indian Housing Drug Elimination Program, Resident Opportunity and Supportive Services, Section 8 Housing Choice Vouchers, and Public Housing Capital Fund. The Housing Authority of Maricopa County was audited by other auditors, and our opinion, insofar as it relates to the compliance of the Authority with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, is based solely on the work of the other auditors. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit and the work of the other auditors.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the work of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in the following table, the County did not comply with certain compliance requirements that are applicable to the following major federal programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

Program Title (CFDA Number)	Compliance Requirement	Finding Number
Public Housing and Indian Housing (14.850)	Eligibility, Special Tests and Provisions	04-101
Section 8 Housing Choice Vouchers (14.871)	Allowable Costs/Cost Principles, Eligibility, Special Tests and Provisions	04-101, 04-103, 04-105
Centers for Disease Control and Prevention—Investigations and Technical Assistance (93.283)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting	04-109
HIV Emergency Relief Project Grants (93.914)	Subrecipient Monitoring, Earmarking	04-110

In our opinion, based on our audit and the work of the other auditors, except for the noncompliance described in the preceding table, Maricopa County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures and the work of the other auditors also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 04-106, 04-107, and 04-108.

Internal Control over Compliance

The County’s management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We and the other auditors noted certain matters involving internal control over compliance and its operation that we and the other auditors consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County’s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-101 through 04-110.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we and the other auditors consider items 04-101, 04-103, 04-105, 04-109, and 04-110 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Maricopa County as of and for the year ended June 30, 2004, and have issued our report thereon dated December 1, 2005. Our report was modified for a disclaimer of opinion on the financial statements of the Maricopa Health Plan Fund, the ALTCS Fund, the Non-AHCCCS Health Plans Fund, and the business-type activities; a change in reporting entity for the Housing Authority of Maricopa County being reported as a discretely presented component unit; and due to our reliance on the report of other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the work of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

December 1, 2005

Maricopa County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
High Intensity Drug Trafficking Areas, passed through Pima County	07.I2PSAP549	01-11-M-130692-1001, 01-11-M-131372-1001	\$ 145,325
High Intensity Drug Trafficking Areas, passed through Pima County	07.I3PSAP549	01-11-M-132771-1002, 01-11-M-134371-1003	<u>286,287</u>
Total U.S. Office of National Drug Control Policy			<u>431,612</u>
U.S. Department of Agriculture			
Food Donation, passed through the Arizona Department of Education	10.550	KR-10358	12,957
Child Nutrition Cluster:			
School Breakfast Program, passed through the Arizona Department of Education	10.553	KR-10358	233,554
National School Lunch Program, passed through the Arizona Department of Education	10.555	KR-10358	<u>370,659</u>
Total Child Nutrition Cluster			<u>604,213</u>
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	HG361070	7,356,313
Child and Adult Care Food Program, passed through the Arizona Department of Education	10.558	09CH7096	178,373
State Administrative Matching Grants for Food Stamp Program, passed through the Arizona Department of Health Services	10.561	HG361068	122,292
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>141,673</u>
Total U.S. Department of Agriculture			<u>8,415,821</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants	14.218		4,118,059
Emergency Shelter Grants Program	14.231		119,721
HOME Investment Partnerships Program	14.239		5,463,691
Public and Indian Housing	14.850		1,928,226
Public and Indian Housing Drug Elimination Program	14.854		32,015
Resident Opportunity and Supportive Services	14.870		34,806
Section 8 Housing Choice Vouchers	14.871		11,694,085
Public Housing Capital Fund	14.872		823,529

(Continued)

See accompanying notes to schedule.

Maricopa County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Lead-Based Paint Hazard Control in Privately-Owned Housing, passed through the City of Phoenix	14.900	92269, 81732	\$ 82,465
Total U.S. Department of Housing and Urban Development			<u>24,296,597</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		1,775,295
Reclamation Projects	15.9-07-30-L0298		195,252
Taylor Grazing Act, passed through the Arizona State Treasurer	15.unknown	None	<u>6,534</u>
Total U.S. Department of the Interior			<u>1,977,081</u>
U.S. Department of Justice			
Juvenile Accountability Incentive Block Grants, passed through John C. Lincoln Hospital	16.523	None	40,412
Juvenile Accountability Incentive Block Grants, passed through the Office of the Governor	16.523	JAIBG-07, JB-GRA-02-4182-07, JB-GRA-03-4060-00	<u>1,646,794</u>
Total Juvenile Accountability Incentive Block Grants			<u>1,687,206</u>
Juvenile Justice and Delinquency Prevention—Allocation to States, passed through the Office of the Governor	16.540	AD030001-008	17,408
Title V—Delinquency Prevention Program	16.548		47,384
Part E—State Challenge Activities, passed through the Office of the Governor	16.549	JC-GRA-01-3273-00	77,948
National Institute of Justice Research, Evaluation, and Development Project Grants, passed through the Arizona Criminal Justice Commission	16.560	FDC-04-202	2,100
Crime Laboratory Improvement—Combined Offender DNA Index System Backlog Reduction, passed through the Arizona Criminal Justice Commission	16.564	FLC-04-303	5,215
Crime Victim Assistance, passed through the Arizona Department of Public Safety	16.575	2001-VA-GX-0004, 2002-VA-GX-0004	165,732
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-02-056, VC-03-056, VC-04-056	47,650

(Continued)

See accompanying notes to schedule.

Maricopa County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Byrne Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	AC-020-03, AC-020-04, CRI-04-076, PC-020-04	\$ 1,422,244
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		454,712
Drug Court Discretionary Grant Program	16.585		158,096
Violence Against Women Formula Grants, passed through the Office of the Governor	16.588	AD010270-005, AD030003-006, AD030131-008	219,911
Grants to Encourage Arrest Policies and Enforcement of Protection Orders, passed through the Office of the Governor	16.590	2003-WB-BX-0051	12,608
Local Law Enforcement Block Grants Program	16.592		552,431
Residential Substance Abuse Treatment for State Prisoners, passed through the Arizona Criminal Justice Commission	16.593	RAC-04-300, SAT-04-108	374,946
State Criminal Alien Assistance Program	16.606		2,127,525
Bulletproof Vest Partnership Program	16.607		7,361
Community Prosecution and Project Safe Neighborhoods	16.609		226,169
Public Safety Partnership and Community Policing Grants	16.710		151,923
Enforcing Underage Drinking Laws Program, passed through the Governor's Office of Highway Safety	16.727	2002-OJJDP-003	14,948
Federal Equitable Sharing Program	16.unknown		<u>86,494</u>
Total U.S. Department of Justice			<u>7,860,011</u>
U.S. Department of Labor			
Welfare-to-Work Grants to States and Localities, passed through the Arizona Department of Economic Security	17.253	E5709062	7,160
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5702007, E5703007, E5704007	2,259,612
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5702007, E5703007, E5704007	1,411,134
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	E5702007, E5703007, E5704007	<u>2,569,853</u>
Total WIA Cluster			<u>6,240,599</u>

(Continued)

See accompanying notes to schedule.

Maricopa County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		\$ 1,559,703
Total U.S. Department of Labor			<u>7,807,462</u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	CM-MMA-0(22)P, JPA 99-171	50,710
Highway Planning and Construction, passed through Maricopa Association of Governments	20.205	MAG#0098	<u>839,500</u>
Total Highway Planning and Construction			<u>890,210</u>
Federal Transit—Formula Grants, passed through the City of Phoenix	20.507	AZ-90-X058, AZ-90-X063, AZ-90-X068	1,531,027
Job Access—Reverse Commute, passed through the City of Phoenix	20.516	90026	586,113
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2003-410-002, 2003-410-009	85,827
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Department of Emergency and Military Affairs	20.703	None	<u>1,450</u>
Total U.S. Department of Transportation			<u>3,094,627</u>
National Foundation on the Arts and the Humanities			
Promotion of the Humanities Federal/State Partnership, passed through the Arizona Humanities Council	45.129	GG58-4063-2004	1,000
State Library Program, passed through the Arizona State Library, Archives and Public Records	45.310	231-1-5-(10), 213-2-1-(06)	<u>48,972</u>
Total National Foundation on the Arts and the Humanities			<u>49,972</u>
U.S. Environmental Protection Agency			
Air Pollution Control Program Support	66.001		864,954
Environmental Protection-Consolidated Research	66.500		<u>267,856</u>
Total U.S. Environmental Protection Agency			<u>1,132,810</u>
U.S. Department of Energy			
Weatherization Assistance for Low-Income Persons, passed through the Arizona Department of Commerce	81.042	076-02, 178-01	<u>130,635</u>

(Continued)

See accompanying notes to schedule.

Maricopa County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Education			
Adult Education—State Grant Program, passed through the Arizona Department of Education	84.002	00-FAE-ABE-0706940-2A, 01-FAE-INF-170694-02A, 01-SAE-ABE-170694-01A	\$ 161,501
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	02FASDEL-260704-13A	85,911
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	04FESCBG-460738-01A, 00FESEJF-070692-02A, 01FESPTA-170692-01A	63,648
Even Start—State Educational Agencies, passed through the Arizona Department of Education	84.213	01FAEEVS170694-03C, F6-0001-02	117,916
Total U.S. Department of Education			<u>428,976</u>
U.S. Department of Health and Human Services			
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers, passed through Area Agency on Aging	93.044	2002-28MHS, 2003-33-MHS	132,947
Special Programs for the Aging—Title III, Part C—Nutrition Services, passed through Area Agency on Aging	93.045	2003-33-MHS	238,510
Project Grants and Cooperative Agreements for Tuberculosis Control Programs, passed through the Arizona Department of Health Services	93.116	30-4023	197,934
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		685,667
Telehealth Network Grants	93.211		490,889
Hansen's Disease National Ambulatory Care Program	93.215		38,288
Family Planning—Services, passed through the Arizona Family Planning Council	93.217	None	252,689
Health Care for the Homeless	93.224		2,300,560
Consolidated Knowledge Development and Application (KD&A) Program	93.230		245,025
Substance Abuse and Mental Health Services—Projects of Regional and National Significance	93.243		698,898

(Continued)

See accompanying notes to schedule.

Maricopa County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Substance Abuse and Mental Health Services— Projects of Regional and National Significance, passed through the University of Arizona	93.243	6 H79 T114400-01-2	\$ 58,705
Immunization Grants, passed through the Arizona Department of Health Services	93.268	152043, HG352193	5,320,765
Centers for Disease Control and Prevention— Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252031	2,844,376
Promoting Safe and Stable Families, passed through the Child and Family Resources, Inc.	93.556	C-86-01-015-1, C8698030102, C8698052102, C8698052103	40,535
Temporary Assistance for Needy Families, passed through the Arizona Department of Economic Security	93.558	E5900018, E5900017, E5900043, E6301006	972,588
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	E7202313, E7202213, F7203013, E7207025, E7208025	828,002
Low-Income Home Energy Assistance, passed through the Arizona Department of Economic Security	93.568	E6307001, E6301006	1,338,148
Community Services Block Grant, passed through the Arizona Department of Economic Security	93.569	E6307001, E6301006	612,656
Refugee and Entrant Assistance— Discretionary Grants, passed through the Arizona Department of Economic Security	93.576	E6300100	7,770
Refugee and Entrant Assistance—Targeted Assistance Grants, passed through the Arizona Department of Economic Security	93.584	E6300100	209,134
Head Start	93.600		18,603,957
Children's Justice Grants to States, passed through the Office of the Governor	93.643	CJAG 99-55, CJAG 2000-75	74,809
Social Services Block Grant, passed through the Arizona Department of Economic Security	93.667	E4311433, E6301006	1,765,535
HIV Emergency Relief Project Grants	93.914		7,858,782
HIV Care Formula Grants, passed through the Arizona Department of Health Services	93.917	HG352331, HG454431	5,187,293
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		758,259

(Continued)

See accompanying notes to schedule.

Maricopa County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs, passed through the Arizona Department of Health Services	93.919	653017	\$ 504,705
Healthy Start Initiative	93.926		401,311
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems, passed through the Arizona Department of Education	93.938	ED04-0052	8,777
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	152031, 152033, 152022, 152004, 152008	282,610
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance, passed through the Arizona Department of Health Services	93.944	08-6000, 152069, 952004	402,815
Preventive Health Services—Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	052010, 052011, 052012, 252025	711,656
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	95-2018	127,527
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	761006, 961111, 161026, 961083, 761111, HG361221, HG361166, HG361140, HP361146-001-0, 952004	<u>1,385,652</u>
Total U.S. Department of Health and Human Services			<u>55,587,774</u>
 U.S. Department of Homeland Security			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Department Emergency and Military Affairs	97.004	2003-MU-13-0034, 2003-TE-TX-0196	184,531

(Continued)

See accompanying notes to schedule.

Maricopa County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Emergency Food and Shelter National Board Program, passed through United Way	97.024	21-0256-00-023E9, 20-0256-00-033E9, 0025600-023	\$ 125,005
Hazard Mitigation Grant, passed through the Arizona Department of Emergency and Military Affairs	97.039	FEMA1422-DR	106,806
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	EMF-2004-GR-0401	284,452
Cooperating Technical Partners	97.045		260,502
State and Local All Hazards Emergency Operations Planning, passed through the Arizona Department of Emergency and Military Affairs	97.051	None	201,897
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.053	None	<u>90,638</u>
Total U.S. Department of Homeland Security			<u>1,253,831</u>
 Total Expenditures of Federal Awards			 <u>\$ 112,467,209</u>

See accompanying notes to schedule.

Maricopa County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Maricopa County and is presented on the modified accrual basis of accounting, except for Schools and Roads—Grants to States (10.665), Payments in Lieu of Taxes (15.226), Taylor Grazing Act (15.unknown), and State Criminal Alien Assistance Program (16.606). For these programs, revenues received during the fiscal year are considered earned and are reported as expenditures. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The amount reported on the schedule for Food Donation (10.550), \$3,921,317 of the Immunization Grants (93.268), and \$5,123,568 of the HIV Care Formula Grants (93.917) are the value of noncash assistance expended for each of the federal programs.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2004 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

Note 3 - Subrecipients

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients:

Program Title	CFDA Number	Amount
Community Development Block Grants/ Entitlement Grants	14.218	\$ 3,452,922
Emergency Shelter Grants Program	14.231	81,992
HOME Investment Partnerships Program	14.239	5,262,262
Juvenile Accountability Incentive Block Grants	16.523	925,780
Byrne Formula Grant Program	16.579	128,756
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	351,737
Public Safety Partnership and Community Policing Grants	16.710	974

(Continued)

Maricopa County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Program Title	CFDA Number	Amount
WIA Youth Activities	17.259	\$ 869,062
Highway Planning and Construction	20.205	360,854
Weatherization Assistance for Low-Income Persons	81.042	124,755
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	501,729
Health Care for the Homeless	93.224	105,846
Consolidated Knowledge Development and Application (KD&A) Program	93.230	142,048
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	486,482
Temporary Assistance for Needy Families	93.558	305,037
Low-Income Home Energy Assistance	93.568	190,237
Community Services Block Grant	93.569	210,753
Head Start	93.600	7,187,366
Social Services Block Grant	93.667	336,542
HIV Emergency Relief Project Grants	93.914	4,063,833
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	276,446
Citizens Corps	97.053	<u>85,032</u>
 Total Awards to Subrecipients		 <u>\$25,450,445</u>

Maricopa County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2004

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified for all opinion units except for the Maricopa Health Plan Fund, the ALTCS Fund, the Non-AHCCCS Health Plans Fund, and business-type activities, which were disclaimers of opinion.

	Yes	No
Material weaknesses identified in internal control over financial reporting?	<u>X</u>	___
Reportable condition identified not considered to be a material weakness?	<u>X</u>	___
Noncompliance material to the financial statements noted?	___	<u>X</u>

Federal Awards

Material weaknesses identified in internal control over major programs?	<u>X</u>	___
Reportable conditions identified not considered to be material weaknesses?	<u>X</u>	___

Type of auditors' report issued on compliance for major programs:

Unqualified for all major programs except for Public and Indian Housing (14.850), Section 8 Housing Choice Vouchers (14.871), Centers for Disease Control and Prevention—Investigations and Technical Assistance (93.283), and HIV Emergency Relief Project Grants (93.914), which were qualified.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.850	Public and Indian Housing
14.871	Section 8 Housing Choice Vouchers
16.592	Local Law Enforcement Block Grants Program
16.606	State Criminal Alien Assistance Program
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth
93.283	Centers for Disease Control and Prevention—Investigations and Technical Assistance
93.600	Head Start
93.914	HIV Emergency Relief Project Grants

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000	
Auditee qualified as low-risk auditee?	Yes ___	No <u>X</u>
<i>Other Matters</i>		
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	___

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Financial Statement Findings

04-01

The County should establish effective internal controls to properly administer its healthcare programs

The Maricopa Managed Care Systems (MMCS) administered the following healthcare programs during fiscal year 2004:

- Arizona Health Care Cost Containment System (AHCCCS)—Acute Health Care program
- AHCCCS—Arizona Long-Term Care System (ALTCS) program
- Senior Select
- Health Select

The MMCS need to establish effective internal controls over its healthcare programs for claims adjudication, prepayments made to providers, and the compilation of related financial information to correct the following significant deficiencies:

- The claims processing system did not always identify duplicate claims, apply proper pay rates, adjust payments for enrollees' share of costs, and the MMCS did not adequately test and document changes made to the system prior to implementation. In addition, the claims processing system was not properly updated for changes in the case management system for information such as level of qualifying services or service authorization dates. Consequently, the MMCS did not always adjudicate claims properly. Claims were paid for incorrect amounts, to ineligible enrollees, for uncovered medical services, more than once for the same services, and overpaid by the amount of the enrollees' shares of cost. In addition, claims were denied for some covered medical services.
- The prepayments made to providers due to claims processing deficiencies were not reconciled to the adjudicated claims to ensure that all prepayments issued were accounted for and adjudicated claims were properly applied against prepayments. Auditors noted approximately \$20 million in unresolved prepayments for which no supporting documentation was provided. As a result, prepaid expenses and medical expenses could be misstated.
- The medical claims payable balance was not properly compiled because lag tables used to track medical claims payment history were not adjusted for claims that were negotiated and settled with providers and for claims paid in the incorrect amount. In addition, paid dates for claims that were applied to prepayments were not accurately reported. As a result, the MMCS were unable to determine an accurate balance for medical claims payable at June 30, 2004.

Because of the deficiencies noted above, the records for the healthcare programs were not reliable. As a result, the auditors were unable to determine whether medical expenses, prepaid expenses, and medical claims payable reported on the healthcare programs' and the County's financial statements were accurate. These deficiencies are considered to be material internal control weaknesses over financial reporting that resulted in disclaimers of opinion on the financial statements of the Maricopa Health Plan Fund, the ALTCS Fund, the Non-AHCCCS Health Plans Fund, and business-type activities.

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

The MMCS should take the following steps to correct the deficiencies noted:

- Establish effective internal controls to ensure that future claims are accurately paid and reported. In addition, continue making an effort to identify all incorrect payments and attempt to recover overpayments.
- Pay providers on a timely basis to avoid making payments to providers prior to claims adjudication. If prepayments are made, specific procedures should be established and followed to reconcile prepayments and adjudicated claims for each provider.
- Post all medical claims paid at the time of payment to the lag tables and make all correcting adjustments to the lag tables in order to determine an ongoing accurate balance for medical claims payable.

04-02

The Housing Authority of Maricopa County should properly update and maintain tenants' records

The Housing Authority of Maricopa County did not establish adequate controls to update and maintain tenants' records to ensure that dwelling rent revenues charged and resulting housing assistance payments were accurate. These inadequate controls resulted in instances in which tenants were charged improper rent and improper tenant housing assistance payments were made. Consequently, there were misstatements of rent revenues and housing assistance expenses reported for the fiscal year. See finding No. 04-101 for specific details regarding federal noncompliance.

To help ensure the propriety of rent revenues and housing assistance payments, the Housing Authority should establish the necessary controls to properly update and maintain tenants' records.

This finding is considered a material internal control weakness over financial reporting, and noncompliance with federal laws and regulations.

04-03

The Housing Authority of Maricopa County needs to establish adequate controls over unused checks

The Housing Authority of Maricopa County did not have adequate controls and safekeeping and distribution procedures over unused checks for the Section 8 Housing Choice Vouchers program. Employees requested checks but no log was maintained showing who requested the checks, the date or number of checks issued, the number of checks that were not used and returned, and who mailed the checks. This lack of adequate controls could result in a misstatement of housing assistance expenses reported.

To help ensure the propriety of housing assistance payments, the Housing Authority should establish the necessary controls to ensure that unused checks for the Section 8 Housing Choice Vouchers program are properly safeguarded and accounted for.

This finding is considered a reportable condition over financial reporting.

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Federal Award Findings and Questioned Costs

04-101

CFDA No.: 14.850 **Public and Indian Housing**

Award Year: July 1, 2003 through June 30, 2004

Award Number: AZ009001004J

Questioned Cost—\$20,676

CFDA No.: 14.871 **Section 8 Housing Choice Vouchers**

Award Year: July 1, 2003 through June 30, 2004

Award Number: AZ009VO-2004

U.S. Department of Housing and Urban Development

Eligibility and Special Tests and Provisions

Questioned Cost—\$104,076

For 80 tenant files, 40 for Public and Indian Housing (Public Housing) and 40 for Section 8 Housing Choice Vouchers (Section 8), reviewed by the other auditors, the following deficiencies were noted:

- Income was not verified for 7 Public Housing tenants and 14 Section 8 tenants.
- Deductions were not verified for 1 Public Housing tenant.
- Utility allowance schedules were not updated for 40 Section 8 tenants.
- Rent reasonableness studies were not completed for 39 Section 8 tenants.
- Lead-based paint notification forms were not included in 5 Section 8 tenant files.

Based on the files examined and using updated information when available, this noncompliance for Public Housing rent and Section 8 housing assistance payments resulted in questioned costs when annualized of \$20,676 and \$104,076, respectively. To help ensure compliance with eligibility and special tests and provisions requirements, the Housing Authority should establish control policies and procedures to ensure that tenant files include documentation necessary to eliminate these deficiencies and be reviewed to ensure compliance with federal program requirements. These policies and procedures should be in accordance with all applicable Code of Federal Regulations (CFR), specifically 24 CFR §§960.253, 960.259(c), and 982.516(a), and Department of Housing and Urban Development (HUD) guidelines for file maintenance.

This finding is considered to be a material internal control weakness and material noncompliance with the programs' eligibility and special tests and provisions requirements.

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

04-102

CFDA No.: 14.850 **Public and Indian Housing**

Award Year: July 1, 2003 through June 30, 2004

Award Number: AZ009001004J

CFDA No.: 14.872 **Public Housing Capital Fund**

Award Year: October 1, 2000 through September 30, 2003

Award Number: AZ20P009501-01, 02 and 03

U.S. Department of Housing and Urban Development

Procurement

Questioned Cost—None

The Housing Authority of Maricopa County became a separate legal entity from Maricopa County on July 1, 2003, and therefore, was not required to follow the County's procurement policies and procedures. Federal guidelines require that a housing authority should follow definitive procedures for purchasing varying levels of goods and services. The Housing Authority did not adopt its own procurement policies. During fiscal year 2004, the Housing Authority partially relied on County and State contracts when procuring goods and services and sometimes followed County procurement policies. No specific instances of unreasonable procurement practices were noted.

The Housing Authority should establish the proper procurement procedures and guidelines as specified in the HUD Procurement Handbook for Public and Indian Housing Authorities-7460.8 and all applicable CFR sections. This would help ensure that definitive procedures for varying purchasing levels for goods and services exist and are being followed.

This finding is considered to be a reportable condition with the programs' procurement requirement.

04-103

CFDA No.: 14.871 **Section 8 Housing Choice Vouchers**

U.S. Department of Housing and Urban Development

Award Year: July 1, 2003 through June 30, 2004

Award Number: AZ009VO-2004

Allowable Costs/Cost Principles

Questioned Cost—\$31,773

The Housing Authority of Maricopa County did not have established procedures to review and reconcile housing assistance payment checks on a monthly basis, and the Section 8 department did not reconcile its records to the Finance department's records for total housing assistance payments and the number of units leased. This resulted in duplicate housing assistance payments during the fiscal year. The Housing Authority was reviewed by the Office of Investigator General (OIG) during fiscal year 2004. The OIG noted duplicate payments in the amount of \$87,720. The Housing Authority subsequently collected \$55,947 of the duplicate payments; however, the balance of \$31,773 has not been collected.

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

The Housing Authority should implement controls and procedures for review and reconciliation between the Section 8 department's records and the Finance department's records on a monthly basis. Each case worker should keep monthly totals of housing assistance payments, total landlords, and total residents serviced by the program. These reports should be reconciled to the prehousing assistance payments check register to ensure that the reports agree. Then these reports should be approved by designated employees from each department and a final check register should be prepared and provided to the accountant who reconciles the bank statements.

This finding is considered to be a material internal control weakness and material noncompliance with the program's allowable costs/cost principles requirement.

04-104

CFDA No.: 14.871 **Section 8 Housing Choice Vouchers**

U.S. Department of Housing and Urban Development

Award Year: July 1, 2003 through June 30, 2004

Award Number: AZ009VO-2004

Allowable Costs/Cost Principles

Questioned Cost—None

The Housing Authority of Maricopa County did not have adequate controls over unused checks for the Section 8 Housing Choice Vouchers program. See finding No. 04-03 for specific deficiencies. This lack of controls could result in improper usage of program monies. Auditors did not note any improper payments based on test work performed. HUD accounting guidelines and the annual contributions contract specifically require that the Housing Authority establish appropriate internal controls to safeguard assets.

This finding is considered to be a reportable condition pertaining to the program's allowable costs/cost principles requirement.

04-105

CFDA No.: 14.871 **Section 8 Housing Choice Vouchers**

U.S. Department of Housing and Urban Development

Award Year: July 1, 2003 through June 30, 2004

Award Number: AZ009VO-2004

Special Tests and Provisions

Questioned Cost—\$148,272

The U.S. Department of Housing and Urban Development allows tenants under the Housing Choice Vouchers program to transfer their vouchers between different housing authorities. The Housing Authority of Maricopa County has both incoming and outgoing portable vouchers. The Housing Authority recorded all incoming portable receipts and all outgoing portable payments in the housing assistance payments expense account. Administrative fees are earned on portable receipts and on outgoing portable payments. The Housing Authority recorded the activity in the housing assistance payments expense account but did not separately denote the administrative fees. The portion of the activity representing

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

administrative fees earned should have been recorded in separate accounts as required by federal regulations. The Housing Authority included administrative fees earned that were already included in the expense account in the annual contributions earned, which overstated draw downs by an estimated \$148,272. The questioned cost was estimated based upon analytics and average amounts for administrative fees. It was not practicable for the auditors to determine the actual dollar value of the overstatement.

The Housing Authority should establish accounting procedures for portable receipts and outgoing portable payments and the associated administrative fees earned that are in accordance with 24 CFR §982.355. In addition, the Authority should establish separate accounts for the incoming and outgoing administrative fees earned. This would provide improved accountability over portable receipts and payments and ensure the propriety of the requested annual contributions earned.

This finding is considered to be a material internal control weakness and material noncompliance with the program's special tests and provisions requirement.

04-106

CFDA No.: 16.592 **Local Law Enforcement Block Grants Program**

U.S. Department of Justice

Award Year: November 28, 2001 through November 27, 2003
October 17, 2002 through October 16, 2004

Award Number: 2001-LB-BX-3821 and 2002-LB-BX-2204,
Cash Management and Reporting

Questioned Cost—\$23,227

The Juvenile Probation Department received Local Law Enforcement Block Grants Program monies in advance and was required to spend these monies by the end of the grant period. The Department did not establish specific controls to ensure that program expenditures were accurately reported on Financial Status Reports and that all monies were expended by the end of the grant period. The lack of these controls resulted in \$5,140 and \$24,326 of expenditures that were overstated on the final 2001 award Financial Status Report for the period ending November 27, 2003, and the 2002 award Financial Status Report for the period ending December 31, 2003, respectively. Auditing procedures were extended for the 2002 award and only \$18,087 of expenditures were overstated on the final 2002 award Financial Status Report for the period ending October 16, 2004. To comply with program requirements, the Juvenile Probation Department should establish the necessary controls to ensure that expenditures are accurately reported on the Financial Status Report and that all monies are expended by the end of the grant period. Any unspent monies should be returned to the grantor or carried over into the next grant period with grantor approval.

This finding is considered a reportable condition and immaterial noncompliance with the program's cash management and reporting requirements.

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

04-107

CFDA No.: 93.153 **Coordinated Services and Access to Research for Women,
Infants, Children, and Youth**

U.S. Department of Health and Human Services

Award Year: August 1, 2002 through July 31, 2003

August 1, 2003 through July 31, 2004

Award Number: 5 H12 HA 00092-05 and 5 H12 HA 00092-06

Allowable Costs/Cost Principles

Questioned Cost—Unknown

In April 2004, the Maricopa Integrated Health System (MIHS) entered into an interdepartmental agreement with the Maricopa County Department of Public Health (MCDPH) to provide program services to patients based on a fixed monthly rate, regardless of actual costs incurred or number of patients served. MIHS paid MCDPH a total of \$11,579 for providing services to patients for the months of April through June 2004 based on the fixed monthly rate. This amount was reimbursed to MIHS by the federal grantor and reported as program expenditures on the County's Schedule of Expenditures of Federal Awards (SEFA). However, the actual expenditures incurred by MCDPH for providing these services were not separately tracked. As a result, auditors could not determine the actual costs incurred by the County for providing these services.

To ensure that expenditures charged to the program represent the actual costs incurred by the County in rendering program services, MIHS should prepare and sign interdepartmental agreements that provide for the reimbursement to other county departments based on the actual costs incurred. In addition, interdepartmental agreements should include provisions for specific and measurable deliverables to be performed, and all compliance responsibilities imposed upon the servicing department.

This finding is considered to be a reportable condition and immaterial noncompliance with the program's allowable costs/cost principles requirement. As there were no actual or allocated costs identified as being associated with the services provided, we were unable to determine the amount of questioned costs, if any, that may have resulted from this finding.

04-108

CFDA No.: 93.153 **Coordinated Services and Access to Research for Women,
Infants, Children, and Youth**

U.S. Department of Health and Human Services

Award Year: August 1, 2002 through July 31, 2003

August 1, 2003 through July 31, 2004

Award Number: 5 H12 HA 00092-05 and 5 H12 HA 00092-06

Subrecipient Monitoring

Questioned Cost—N/A

During fiscal year 2004, the Maricopa Integrated Health System (MIHS) passed through \$501,729, or approximately 73 percent of the monies received for the Coordinated Services and Access to Research for Women, Infants, Children, and Youth program, to seven subrecipients. The contracts with the subrecipients did not identify the specific federal award information, awarding agency, program

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

requirements, and the subrecipients' compliance responsibilities, as prescribed by OMB Circular A-133, Subpart D, §.400(d). MIHS' monitoring reviews of the subrecipients reported no noncompliance that may have resulted from these omissions.

To help ensure that subrecipients are in compliance with the requirements imposed on them by federal laws, regulations, and provisions of contracts and grant agreements, contracts with subrecipients should identify the specific award, including the federal program title and CFDA number, federal awarding agency, program requirements, and each subrecipient's compliance responsibilities.

This finding is considered to be a reportable condition and immaterial noncompliance with the program's subrecipient monitoring requirement.

04-109

CFDA No.: 93.283 **Centers for Disease Control and Prevention—
Investigations and Technical Assistance**

U.S. Department of Health and Human Services

Passed through the Arizona Department of Health Services

Award Year: April 1, 2002 through August 30, 2003, August 31, 2003 through August 30, 2004

Award Number: 252031

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting

Questioned Costs—\$2,700

The Public Health Department did not have proper policies and procedures in place to ensure that all program expenditures were allowable under the program contract and that expenditures were properly accounted for. In addition, employees were not given adequate training to ensure that only allowable program costs and activities were charged to the program. Consequently, the Department charged several unallowable expenditures to the program and had difficulty tracking and reporting expenditures. As a result, the Department did not comply with OMB Circular A-133, Subpart C, §.300(b)(c) and 45 CFR §§92.22(a) and 92.42(b). The following instances of noncompliance were noted:

- The Arizona Department of Health Services (ADHS) performed an audit during fiscal year 2004, for the period April 2002 through August 2003, and determined that unallowable costs were charged to the program. The Public Health Department made adjustments to reverse these unallowable costs. However, during our testwork, auditors noted additional costs the County was reimbursed for of approximately \$2,700 in unallowable food expenditures. Food expenditures noted were for trainings and meetings. Although, ADHS allowed the Department to incur food expenditures during this period, food expenditures were specifically disallowed pursuant to the ADHS Accounting and Procedures Manual, which grantees are required to follow as part of the intergovernmental agreement. Subsequently, ADHS has disallowed most food expenditures in accordance with their policy manual.

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

- The Department made numerous adjustments to expenditures charged to this program as they were uncertain as to what constituted allowable program costs. In addition, although the Department designated a specific accounting string for program expenditures, nonprogram expenditures were also recorded in this accounting string. Thus, the Department did not separately track federal and nonfederal program expenditures making it difficult to report program expenditures on the Contractor's Expenditure Reports (CERs) and to reconcile the reported expenditures to the financial system. Furthermore, as a result of noting unallowable costs during its audit, ADHS instructed the Department to revise reimbursement requests for the period August 2003 through January 2004. ADHS instructed the Department to not submit CERs for reimbursement for the period February 2004 through June 2004 until all unallowable cost issues were resolved.

In order to ensure that the program is properly administered and to comply with OMB Circular A-133 and 45 CFR, the Department should establish internal control policies and procedures that include the following:

- Establish trainings to provide employees with the knowledge and skills necessary to ensure that only allowable program costs and activities are charged to the program.
- Review expenditures to ensure that they are allowable program costs for allowable activities.
- Separate recording and tracking of federally reimbursed program expenditures so that only those expenditures allowable under the program contract are recorded on the financial system under the grant accounting string.
- Perform and document reconciliations on the drawdown requests to underlying financial records. These reconciliations should be reviewed by a supervisor.

This finding is considered a material internal control weakness and material noncompliance with the program's activities allowed or unallowed, allowable costs/cost principles, and reporting requirements. It was not practical to extend our auditing procedures sufficiently to determine the total amount of questioned costs that may have resulted from this finding.

04-110

CFDA No.: 93.914 HIV Emergency Relief Project Grants

U.S. Department of Health and Human Services

Award Year: March 1, 2002 through February 28, 2003

March 1, 2003 through February 29, 2004

March 1, 2004 through February 28, 2005

Award Number: 6 H89 HA 00031-09-03, 6 H89 HA 00031-10-09,
and 6 H89 HA 0031-11-00

Subrecipient Monitoring and Earmarking

Questioned Costs—Unknown

During fiscal year 2004, the Public Health Department passed through \$4,063,833, or 52 percent of the monies received for the HIV Emergency Relief Project Grants program, to 14 subrecipients. However, the Department lacked policies and procedures to ensure that subrecipients were in compliance with certain program requirements as prescribed by OMB Circular A-133, Subpart D, §.400(d) and 42 United States Code (USC) §300ff-14 as evidenced by the following:

Maricopa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

- The Department's contracts with the subrecipients did not identify the specific federal award information including the federal program title and CFDA number, awarding agency, program requirements, and the specific subrecipient's compliance responsibilities, as prescribed by OMB Circular A-133, Subpart D, §.400(d). Consequently, subrecipients were not made aware of the 10 percent administrative earmarking requirement.
- The Department's subrecipient monitoring did not include procedures for evaluating subrecipients' compliance with the 10 percent administrative earmarking requirement. Thus, the Department did not ensure that the 10 percent requirement was met.
- The Department did not obtain a current OMB Circular A-133 audit for one subrecipient who received \$796,000 during the fiscal year.

As a result of the above, the Department did not comply with certain subrecipient monitoring procedures prescribed by OMB Circular A-133, Subpart D, §.400(d) and earmarking requirements as prescribed by 42 USC §300ff-14. Thus, the Department could not ensure that the subrecipients were complying with all applicable program requirements.

To ensure subrecipients are monitored properly, the Department should follow the procedures prescribed by OMB Circular A-133, Subpart D, §.400(d) and establish specific subrecipient monitoring procedures that include:

- Prepare and sign contracts that identify the federal program title and CFDA number, federal awarding agency, all program requirements, and the subrecipients' compliance responsibilities.
- Monitor subrecipients' activities as necessary to ensure compliance with program requirements. Such procedures should consist of monitoring the 10 percent administrative earmarking requirement.
- Ensure that all subrecipients expending \$500,000 or more in federal awards have an OMB Circular A-133 audit performed and take appropriate and timely corrective action on audit findings.

Subsequent to our audit, we were informed that the Department had a separate review performed by a consultant on subrecipient administrative costs. The consultant calculated that approximately \$1.2 million was overcharged by subrecipients during grant years 2003 and 2004 relating to the 10 percent administrative earmarking requirement. It was noted by the auditors that the consultant based the questioned costs calculation using subrecipients' budgeted expenditures for administrative costs rather than actual costs. Therefore, we were not able to determine the accuracy of the consultant's estimate.

This finding is considered to be a material internal control weakness and material noncompliance with the program's subrecipient monitoring and earmarking requirements. It was not practical to extend our auditing procedures sufficiently to determine the actual questioned costs that may have resulted from this finding.



Maricopa County

Department of Finance

Tom Manos

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www.maricopa.gov

December 1, 2005

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying corrective action plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's schedule of findings and questioned costs.

Sincerely,

Shelby Scharbach
Deputy Finance Director

**Maricopa County
Corrective Action Plan
Year Ended June 30, 2004**

Financial Statement Findings

04-01

The County should establish effective internal controls to properly administer its healthcare programs.

Contact Person: Linda Polan, Maricopa County Managed Care Systems, Chief Financial Officer, (602) 344-8278

Anticipated Completion Date: December 2006

Maricopa County Managed Care Systems will take the following actions to ensure compliance with the audit findings.

1. A decision was made in early winter 2004 that the claims payment system (OAO) that caused the majority of the significant deficiencies was to be replaced. The new processing system has handled all claims with a date of service as of July 1, 2004. The prior claims system (OAO) was shut down in December 2005 for all claim activity. The configuration of the new claims processing system Facets went through vigorous testing both before claims processing began, and considerable review of claims processed. There has also been considerable testing of system functions, before implementation of those functions, to ensure proper outcomes.

The Managed Care Systems have retained an outside consulting firm to assist with the reconciliation of the amounts that were paid to healthcare providers as several providers may have been overpaid. It is anticipated that the reconciliation process will be completed by September 2006. The consulting firm will request reimbursement from the healthcare providers, on behalf of the County, if it is determined that the providers were overpaid. It is anticipated that the reimbursement process from the healthcare providers will be completed by December 2006.

2. The Managed Care Systems have retained an outside consulting firm to assist with the reconciliation of prepayments to adjudicated claims. The consulting firm will assist the Systems in the identification of the funds due to/from the providers and the consulting firm will assist the Systems in the collection of any overpayments. The Systems will reimburse vendors for identified underpayments.

The County has transferred or closed the Maricopa County healthcare programs (AHCCCS-Acute Health Care and ALTCS programs) and its membership on September 30, 2005. In addition, the Senior Select program was terminated as of December 31, 2004, and the Health Select program was transferred to the County's Employee Benefits Trust Fund starting January 1, 2004. All liabilities prior to the transfer and discounted operations will remain with the County's Managed Care Systems. As a result, the Managed Care Systems will no longer have prepaid claims to the providers as the Systems will only reimburse providers for the claims owed as of each program's termination date.

3. The Managed Care Systems have added the dollar amount of negotiated settlements and claims applied to prepayments to the information utilized to estimate the medical claims payable. This information has been added with date specific information of both date of service and date paid.

There were no estimated adjustments made to the lag tables as a result of overpayments or incorrect payments as these have not been completely determined. Upon the completion of the consulting firm's reconciliation process estimated to be September 2006, the lag tables will be updated accordingly.

**Maricopa County
Corrective Action Plan
Year Ended June 30, 2004**

04-02

The Housing Authority of Maricopa County should properly update and maintain tenants' records.

Contact Person: Karen Mofford, Finance Manager, (602) 257-1113 ext. 217

Anticipated Completion Date: June 30, 2005

The Housing Authority of Maricopa County will establish a system of records management to ensure that each applicant and tenant file contains verification of the information required by Federal program requirements. The files will be monitored by a Section 8 Quality Control Specialist.

04-03

The Housing Authority of Maricopa County needs to establish adequate controls over unused checks.

Contact Person: Karen Mofford, Finance Manager, (602) 257-1113 ext. 217

Anticipated Completion Date: June 30, 2005

The Housing Authority of Maricopa County will establish adequate controls, safekeeping, and distribution procedures over unused checks for the Section 8 Housing Choice Vouchers program. The log will list the date and the name of person logging out the checks and check numbers will be assigned sequentially to ensure there are no missing checks.

**Maricopa County
Corrective Action Plan
Year Ended June 30, 2004**

Federal Award Findings and Questioned Costs

04-101

CFDA No.: 14.850 Public and Indian Housing,
CFDA No.: 14.871 Section 8 Housing Choice Vouchers

See financial statement finding 04-02 for corrective action plan.

04-102

CFDA No.: 14.850 Public and Indian Housing
CFDA No.: 14.872 Public Housing Capital Fund
Contact Person: Karen Mofford, Finance Manager, (602) 257-1113 ext. 217
Anticipated Completion Date: April 19, 2005

The Housing Authority of Maricopa County Board of Commissioners approved the Procurement Policy and Procedures (Resolution 000042) on April 19, 2005. This policy contains general provisions, procurement methods, types of contracts, clauses and contract administration, appeals and remedies, assistance to small and other businesses, and ethics in public contracting. The adopted policy adheres to the Housing and Urban Development (HUD) handbook 7460, Procurement Guidebook. A copy was submitted to HUD/Phoenix for review on June 27, 2005.

04-103

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Contact Person: Karen Mofford, Finance Manager, (602) 257-1113 ext. 217
Anticipated Completion Date: January 1, 2005

The Housing Authority of Maricopa County will generate a Housing Assistance Payment check register report to be reviewed by the Section 8 Department. The reports generated will be reviewed and approved before a payment is processed. A monthly monitoring report will also be put into place. This report will reflect the leased records on the first of the month along with the regular and port-out-voucher amounts. The average of the Housing Authority Payments and the Utility Allowance Payments will be reported to the Board of Commissioners each month and will be evaluated against the prior month's averages. The Section 8 Department and the Housing Authority of Maricopa County have retrieved \$80,374 of the \$87,720 overpaid. The remaining amount of \$7,346 has been turned over to a collection agency, as there have been no responses or negative responses from landlords.

04-104

CFDA No.: 14.871 Section 8 Housing Choice Vouchers

See financial statement finding 04-03 for corrective action plan.

**Maricopa County
Corrective Action Plan
Year Ended June 30, 2004**

04-105

CFDA No.: 14.871 Section 8 Housing Choice Vouchers

Contact Person: Karen Mofford, Finance Manager, (602) 257-1113 ext. 217

Anticipated Completion Date: June 30, 2005

The Housing Authority of Maricopa County will establish a tracking system for reporting portable accounts receivable. The accounts receivable will be booked separately by the individual Housing Authority. A journal voucher will be processed at the end of the month to record the accounts receivable balance. A separate account will be set up to record administrative fees.

04-106

CFDA No.: 16.592 Local Law Enforcement Block Grants Program

Contact Person: Tony Weaver, Finance Manager, (602) 506-4338

Anticipated Completion Date: March 1, 2006

The Juvenile Probation Department allocated \$17,966.84 of excess payroll expenditures to the 2003 Local Law Enforcement Block Grant (LLEBG) Award that could be applied to the 2002 LLEBG Award. An incorrect journal voucher entry was processed in April 2005 to transfer funds to the 2002 LLEBG Award; an adjusting fiscal year 2005 entry will be posted to correct the original entry in September 2005. This corrective action will reduce the total overstated costs from \$18,086.56 to \$119.72 for the final 2002 LLEBG Award Financial Status Report for the period ending October 16, 2004. The Juvenile Probation Department has notified the Grantor of the audit finding and agreed to return unspent 2001 LLEBG Award funds of \$5,139.95 and unspent 2002 LLEBG Award funds of \$119.72. The Juvenile Probation Department will implement written procedures for the final grant close-out to ensure that all revenues, expenditures, payroll accruals and interest are accounted for and reported to the grantor in a timely manner.

04-107

CFDA No: 93.153 Coordinated Services and Access to Research for Women, Infants, Children, and Youth

Contact Person: Cheri Tomlinson, Grants Manager, (602) 344-2629

Anticipated Completion Date: May 1, 2005

Maricopa Integrated Health System (MIHS) will develop an Intergovernmental Agreement (IGA) with the Maricopa County Department of Public Health (MCDPH) that provides for the reimbursement based on the actual costs incurred by MCDPH, rather than based on a fixed rate. MIHS will also include in this IGA provisions that identify the specific and measurable deliverables to be performed and the compliance responsibilities imposed.

04-108

CFDA No: 93.153 Coordinated Services and Access to Research for Women, Infants, Children, and Youth

Contact Person: Cheri Tomlinson, Grants Manager, (602) 344-2629

Anticipated Completion Date: May 1, 2005

Maricopa Integrated Health System will have signed 2004-2005 Contract Cycle contracts that identify the specific award, including the program title and number, federal awarding agency, program requirements, and the subrecipients' compliance responsibilities.

**Maricopa County
Corrective Action Plan
Year Ended June 30, 2004**

04-109

CFDA No: 93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance

Contact Person: Scot Pitcairn, Finance/Budget Supervisor, Maricopa County Department of Public Health, (602-506-6963)

Anticipated Completion Date: May 31, 2006

Maricopa County Department of Public Health (MCDPH) will take the following actions to ensure compliance with the audit findings.

1. In regard to the finding related to unallowable food costs totaling \$2,700, the Department will cease purchasing food using BioTerrorism grant funds. The exception may be if the pass-through grantor, the Arizona Department of Health Services (ADHS), specifically directs the Department in writing to purchase food for an all-day mock terrorism, health emergency exercise, or an actual emergency event.
2. The Department will continue to establish training to provide employees with the knowledge to determine allowable program costs. The program's financial staff has regular communication with ADHS staff regarding budget and expense questions. We will request that ADHS formalize this information into training sessions for program staff involved in purchasing or expenditure decisions.
3. The program financial staff regularly reviews expenditures to ensure they are allowable costs. A procedure of having expenditures reviewed by program management staff will be implemented once the new program administrator starts in mid-February 2006.
4. The Department currently has a system of recording and tracking federally reimbursed program expenditures in a separate accounting string. However, in the past, some expenditures were deemed unallowable by the pass-through grantor, but did not always get corrected out of the grant accounting string in a timely manner. Ensuring that all expenditures are allowable expenditures would address this issue of recording federal expenditures separately. We will continue to monitor the recording of federal program expenditures. If expenses are determined to be unallowable, they will be transferred out of the grant by means of a journal voucher within the month following this determination unless different instructions are provided by the pass-through grantor.
5. The program has implemented a procedure of ensuring that expenses shown on the monthly billing statements, Contractor Expenditure Reports (CER), sent to the grantor match the expenditures shown in the county's financial system Advantage. This procedure entails the program financial manager matching the expenditures by object code in the monthly 210A report generated from the Advantage system to the figures reported in the monthly CER. This procedure was implemented in December 2003. However, since there were numerous adjustments to program expenditures and as some of the expenditures were not transferred out of the grant accounting string in a timely manner, differences between the CER and Advantage still existed during FY 03-04. As we are implementing procedures to correct this problem, the CER should tie to the financial system without issues in the future.

**Maricopa County
Corrective Action Plan
Year Ended June 30, 2004**

04-110

CFDA No: 93.914 HIV Emergency Relief Projects Grants

Contact Person: Carol McFadden, Administrator, Maricopa County Department of Public Health, Division of Professional and Technical Services, (602-506-6858)

Anticipated Completion Date: February 28, 2007

Maricopa County Department of Public Health (MCDPH), Ryan White Title 1 Program will take the following actions to ensure compliance with the audit findings.

1. The MCDPH Ryan White Title 1 Program will prepare contracts for the FY 2006-2007 grant year that identify the specific award, including the program title and CFDA number, federal awarding agency, all program requirements, and the subrecipient's compliance responsibilities.
2. The MCDPH Ryan White Title 1 Program has revised and implemented a monitoring tool to ensure compliance with program requirements. Specifically, regarding the 10% Administrative costs, section VII – fiscal review, will review the subrecipients' policies, procedures, and documents regarding the administrative costs allowed in compliance with the Ryan White CARE Act regulations. All subrecipients will be monitored at least annually to ensure compliance in all areas.
3. The MCDPH Ryan White Title 1 Program will monitor all subrecipients expending \$500,000 or more in federal awards to ensure that an A-133 audit is performed in a timely manner and the reports are submitted to the MCDPH Ryan White Title 1 Program. The program monitoring tool will review subrecipients' compliance with this requirement, and MCDPH will take appropriate and timely corrective action on audit findings.



Maricopa County

Department of Finance

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December 1, 2005

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying summary schedule of prior audit findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs related to federal awards. This schedule also includes audit findings reported in the prior audit's summary schedule of prior audit findings that have not been corrected.

Sincerely,

Shelby Scharbach
Deputy Finance Director

Maricopa County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

Status of Federal Award Findings and Questioned Costs

CFDA No.: 93.230 – Consolidated Knowledge Development and Application (KD&A) Program

Finding No. 02-103

Status: Fully corrected.

CFDA No.: 14.850 – Public and Indian Housing

CFDA No.: 14.871 – Section 8 Housing Choice Vouchers

CFDA No.: 14.872 – Public Housing Capital Fund

Finding No. 03-101

Status: Fully corrected.

CFDA No.: 14.871 – Section 8 Housing Choice Vouchers

Finding No. 03-102

Status: Fully corrected.

CFDA No.: 14.871 – Section 8 Housing Choice Vouchers

Finding No. 03-103

Status: Partially corrected.

The Housing Authority of Maricopa County completed all Housing Quality Standards (HQS) inspections, HQS Quality Control inspections, and re-examinations in a timely manner. Housing Assistance Payments were calculated properly. However, the Housing Authority did not have the Utility Allowance Schedule updated and income was not verified properly. The Housing Authority of Maricopa County will establish a system of records management to ensure that each applicant and tenant file contains verification of the information required by Federal program requirements. Contact person is Karen Mofford, Finance Manager, (602) 257-1113 ext. 217.

CFDA No.: 93.153 – Coordinated Services and Access to Research for Women, Infants, Children, and Youth

Finding No. 03-104

Status: Partially corrected.

In fiscal year 2004, Maricopa Integrated Health System (MIHS) monitored each subrecipient to ensure compliance with the program requirements and OMB Circular A-133. This monitoring will continue on an annual basis. In addition, MIHS has signed contracts for fiscal year 2005 that identify the specific award, including the program title and number, federal awarding agency, program requirements and the subrecipients' compliance requirements. Contact person is Cheri Tomlinson, Grants Manager, (602) 344-2629.